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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 8, 2000

APPLICATION OF

VIRGINIA NATURAL GAS, INC.

CASE NO. PUE970617

For an Annual Informational
Filing

FINAL ORDER

On November 25, 1998, Virginia Natural Gas, Inc. ("VNG" or "the Company"), filed its Annual Informational Filing ("AIF") for the twelve months ended June 30, 1998, with the State Corporation Commission ("Commission"). VNG included both a weather-normalized earnings test for the test period and an earnings test based on actual weather as part of its AIF filing.

On April 15, 1999, the Staff of the State Corporation Commission ("Staff") filed its report in the captioned matter. Among other things, the report noted that, after employing an earnings test based on actual test year jurisdictional earnings, average rate base, average capital structure, and after making limited adjustments, the Company earned a return on equity of 11.09%, within its authorized return on equity range of 10.40%-11.40%. The only regulatory asset identified in the Staff report for VNG related to the implementation costs of accrual accounting for post-retirement benefits other than pensions

("OPEB"). Staff reported that it had analyzed the results of VNG's earnings test on a normal weather basis because, among other things, the accruals related to OPEB were established as a regulatory asset on the basis of normal weather. The Staff asserted that because VNG was earning above the bottom of its authorized return on equity range, the Company had recovered its OPEB regulatory asset and should be required to write off this regulatory asset. Staff reported that after the write-off of the implementation costs associated with accrual accounting for OPEB, the Company's return on equity was 10.55%, a return above the bottom of the Company's currently authorized return on equity range of 10.40%-11.40%.

On May 13, 1999, VNG, by counsel, filed a motion indicating its disagreement with the Staff's conclusions and recommendations. It asserted that the methodology employed by Staff in the application of the Rules Governing Utility Rate Increase Applications and Annual Informational Filings and in the calculation of the earnings test was flawed. It asked, among other things, that the Commission hold a hearing on these matters and defer ruling on the Staff's recommendations until such time as VNG had an opportunity to present its arguments on these issues.

On May 21, 1999, the Commission issued its Order Scheduling Hearing in this matter. That Order appointed a Hearing Examiner

to the proceeding, provided for a hearing to be convened on July 28, 1999, and established a procedural schedule for VNG and the Staff.

The matter came on for hearing before Deborah V. Ellenberg, Chief Hearing Examiner, on July 28, 1999. Post-hearing memoranda were filed by the Staff and the Company on October 6, 1999.

On July 13, 2000, the Chief Hearing Examiner filed her Report. In this Report, she made the following findings:

1. The OPEB deferral is a regulatory asset subject to review using an earnings test;
2. The earnings test in this case should not be weather normalized;
3. VNG test period earnings produce a 9.18% return on equity which is below the bottom of its authorized range of 10.4% to 11.4%; and
4. The regulatory asset for OPEB implementation costs was not fully recovered during the test period.

The Chief Hearing Examiner recommended that the Commission enter an order that adopts the findings set forth above and dismisses the case from the Commission's docket of active proceedings.

The Chief Hearing Examiner invited parties to the proceeding to file comments on her Report within twenty-one (21) days of its issuance.

Comments were filed by VNG and the Staff, respectively, on August 3, 2000. VNG's comments supported the findings and recommendations of the Chief Hearing Examiner's Report and urged the Commission to adopt the findings and recommendations in that Report.

The Staff filed comments which reviewed the arguments it had advanced in the proceeding below. The Staff urged the Commission, if it determined to adopt the Chief Hearing Examiner's findings and recommendations, to limit its ruling to the facts and issues as they pertain to VNG, and to reserve judgment as to how the recovery of the OPEB regulatory asset should be evaluated for natural gas companies other than VNG, since these circumstances were not developed in the record below. The Staff stated that the use of actual weather to evaluate the recovery of the OPEB deferral may, in some instances, adversely affect gas utilities other than VNG whose OPEB costs were established using a weather-normalized earnings test.

NOW, UPON CONSIDERATION of the Company's application, the record developed herein, the Chief Hearing Examiner's Report, the comments thereon, and the applicable statutes, the Commission is of the opinion and finds that the findings and recommendations set out in the July 13, 2000, Report as they

pertain to VNG should be adopted, and this matter should be dismissed.

Accordingly, IT IS ORDERED THAT:

(1) The findings and recommendations of the July 13, 2000, Report of the Chief Hearing Examiner are hereby adopted.

(2) VNG's regulatory asset for OPEB implementation costs was not fully recovered during the test period for the twelve months ended June 30, 1998, when evaluating the recovery of these costs using an earnings test employing actual weather.

(3) This matter is hereby dismissed from the Commission's docket of active proceedings.